EVALUATING RISK MANAGEMENT PRACTICE IN ETHIOPIAN INSURANCE COMPANIES (BRANCH SPECIFIC IN CASE OF HAWASSA BRANCHES)

A RESEARCH SUBMITED TO DEPARTMENT OF ACCOUNTING AND FINANCE FOR THE PARTIAL FULFILMENT OF THE REQUIREMENT OF BACHELOR OF ART DEGREE INACCOUNTING AND FINANCE

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Abstract

This paper investigates with the evaluation of the Risk Management Practice in Ethiopia Insurance Companies. The objective of the study was To examine the approaches used to prevent risk in insurance industry, to investigate the risk management practice in the insurance companies in Ethiopia, to identify the types of risk that affects the insurance companies, and to analysis the evaluations of insurance for each risk in insurance industries. Research paper focused mainly on Ethiopia Insurance Companies in the case of Awassa city to know how much insurance companies works to support societies. Mainly focusing on three insurance companies those are: Nile insurance s.c, Global insurance s.c and Africa insurance companies. The relevant data for this study was obtained from both primary and secondary sources. ***Non probability judgmental sampling*** *techniques are taken as appropriate one for the study. Eventually, data collected from both source were checked and analyzed using descriptive techniques and presented in the form of table, percentage, graphs and the like with detail explanation. With this respect, the study identified the evaluation of risk management practices in insurance companies in branch of Hawassa city to briefly explain in each corners that leads for further improvements and achievements. Lastly this study investigates several challenges that face to be efficiently explained in each corner.*

CHAPTER ONE
INTRODUCTION

1.1Background of the study

In recent years, the values of evaluate Risk Management (ERM) in different insurance company have come to a level where it cannot be ignored. Risk management has been re- discovered by multinational firms in the United States after World War II. The general trend in current usage of risk management probably began in the early 19050s. In October 1988 the first world congress on risk management was sponsored by the International Federation of Risk and Insurance Management Associations (IFRIMA). For instance Acharya and Mutenga (2013) found that insurance companies who implement risk management in a holistic manner realize the true benefits of the practice. Furthermore, Acharyya and Mutenga (2013) stated that, the more the risk management practice is integrated with the functions of operations, underwriting, investment, human resources, reporting, compliance the more that quality of value creation would be for insurance companies.

In developed countries like the United Kingdom (UK) the practice of Enterprise (Integrated) Risk management have become the ultimate approaches to risk management. Even though the main reason for practicing risk management in UK insurances was to comply with Financial Service Authority (FSA) regulations, four studies made between the year 2003 and 2006 indicate that, extensive application of risk measures such as stress test losses, followed by solvency less than specific level followed by the Value at Risk (VAR) have been observed in the estimation of risk to help set risk appetite and capital allocation of insurance companies and in some cases this estimates were even reported to board (Kevin et al., 2007).

The African insurance company is currently experiencing a diversified growth with annual premium collections accounting for 16% of the GDP in South Africa while less than 2.5% of the GDP in Tanzania and Ethiopia (Swiss re, 2015). Even though, the Sub-Saharan region low insurance penetration indicates a growth opportunity, for most Sub-Saharan countries the insurance growth is not yet linked with the rapid growth the region is said to be experiencing, especially Ethiopia who is dubbed as the fastest growing country in Africa (IMF, 2016).

Risk management is an important discipline in business especially for insurance because its central function is to distribute risk across different participant and cover various types of risks for individuals, businesses and companies. According to standard and poor's (2013) insurers as risk-bearing institutions can and do fail if risks are not managed adequately.

Insurance Supervision Directorate (NBE) has compiled the draft of the risk management guideline for eight commonly identified and known as inherent and significant risks of insurers. In the process of these risks management, the role to be played by the board of directors, management, internal control system and other concerned parties are clearly addressed. Then to formulate risk management philosophy, strategies, policies and procedures have also been given due coverage. It is thus important to evaluate the risk management practice of insurance company.

1.2 Statement of the Problem

The Global insurance industry has been in a continuous change in the past two decades with respect to risk management. Since the late 1980"s, due to the volatility of market in the US investment, different risk management models began to arise, for instance the development of Risk-Metrics for market risk and Credit metrics for credit risk by JP Morgan and the application of the Value at Risk (VAR), which was primarily used by insurance for measuring optimal capital requirement to protect companies portfolio from anticipated and unanticipated loss (Dionne, 2013).

Even though the importance of risk management in today's insurance industry is highly essential Vaughan (2007), the Knowledge gap over the level of risk management is a prevalent condition in African insurance industry Schwan (2016). Because the financial sector in Africa still show scarcity of research in risk management. The fact that risk management is still at rudimentary stage is an added factor giving rise to a lack of enough research on the practice (shay and Site, 2014).

According to NBE risk management guideline (2010), although underdeveloped, the insurance sector in Ethiopia has observed a significant expansion over the past few years based on increase in terms of in number of insurers, financial products they are offering to the clients & etc. The regulatory body believes that such growth should be matched with strong risk management practices.

However, despite the risk management statutory requirements established by the NBE previous

Literature on risk management practices of insurance sector in Ethiopia is very limited. Therefore, the motivation of this study is to extend the existed study by examining the current status and various types of selected insurance companies operating in Ethiopia.

Accordingly, this study seeks to examine the Risk Management Practice in Ethiopia Insurance Companies in generally. Specifically, the study examines the nature of risk management primness practices and strategies predominantly used in the insurance company; evaluate the process of risk management used in conducting the risk management practices of insurance in Ethiopian insurance company; and review the overall challenges faced by insurance in evaluating and implementing the risk management practices.

1.3. Research Questions

In order to address the objectives stated above the following research questions were closely examined:

1. To what kind of approach or technique uses to prevent risks in insurance industry?
2. To what the risk management practice in the insurance companies in Ethiopia?
3. To what types of risks are affecting the insurance companies?
4. To what mechanisms used to analysis the evaluation of insurance for each risk in insurance industries?

1.4. Objective of the Study

1.4.1. General Objective

The general objective of this study was to evaluate the Risk Management Practice in Ethiopia Insurance Companies.

1.4.2. Specific Objectives

- ✓ To examine the approaches used to prevent risk in insurance industry.
- ✓ To investigate the risk management practice in the insurance companies in Ethiopia.
- ✓ To identify the types of risk that affects the insurance companies.
- ✓ To analysis the evaluations of insurance for each risk in insurance industries.

1.5. Significance of the Study

It were provide valuable information for regulatory bodies especially NBE to see the actual practice maintained by insurance companies. The recommendation and Suggested possible solutions for the identified gaps were be used as an input for assessing the effectiveness of risk management practice. It could help insurance companies to identify their weaknesses on practice of risk management. It was also give a general insight to the academic &professional society regarding risk management aspects of insurance companies.

1.6. Scope of the Study

The scopes of the study were evaluating risk management practice of insurance companies. It assesses the level of risk management practice by focusing on the evaluated performance. Moreover, the study covered the risk management practice of insurance companies within Ethiopian insurance industry. So the study achievements and implications are the reflection of the property and behavior of the Ethiopian insurance company.

1.7Limitations of the Study

To organize and achieve the objectives of the research the main limitation of the study was limited experience which means that to conduct such like study as well as limited time and budget also another constraint to conduct the research efficiently. In addition to this most of employers of insurances was not much interested due to covid-19(corona virus).

1.8. Organization of the Study

The Research proposal is organized in five chapters; First chapter contains; Background of the Study, statement of the problem, the Research questions, elaborates the Objectives and its Scope. The second chapter was review relevant Literature related to the concepts and theories of evaluating risk Management those are appropriate to the study. The Third chapter presented about the type of the Research and the Methods which will be employed in the study, source of data and methods of data gatherings, techniques of data analyzing and presentation. The final chapter was focused on data presentation, discussion, summery and recommendation.

CHAPTER TWO

LITERATURE REVIEW

2.1. Definition of Risk and Evaluation Risk Management

Risk is defined in terms of uncertain events which may have positive or negative effect on the project objectives. Risks include circumstances or situations, the existence or occurrence of which, in all reasonable foresight, results in an adverse impact on any aspect of the implementation of the project. It is also important to defined risk before discussing its management. According to Vaughan and Vaughan (2007), risk is defined as "Risk is a condition in which there is a possibility of an adverse deviation from a desired outcome that is expected or hoped for." It is vied that any deviation that causes unwanted alteration from an outcome that is predicted and favored to happen is said to be a risk. In addition Vaughan and Vaughan (2007) defined Risk management as "a scientific approach to the problem of risk that has as its objective the reduction and elimination of risks facing the business firm." From this definition it is understood that the theory and practice of risk management is not only limited to the insurance business but is involved in the decision making of other business sectors too. Although risk management is a recent Thought it is argued that it actual practice date back to the start of human civilization.

Modern risk management is a recent phenomenon which started after 1955 (Dionne, 2013). Risk management is now becoming an administrative paradigm for all firms. Organizations have no choice but to organize in the face of uncertainty. Organizational life is now demanding the inclusion of risk management on decision making process of their business (Power, 2004).

After 1990s, due to an increased literature and thought under the title of Enterprise Risk

Management focusing on holistic risk management, organizations slowly moved from the traditional risk management tools and techniques to a holistic perspective in their process of risk management of insurance companies in Ethiopia.

2.2 Risk and the insurance industry

During the last two decades financial institutions and investors experienced increased volatility in the major and financial commodity markets, with many financial crises. The technological revolution resulted in changes in the operation of markets, increased access to information, changes in the types of services available to investors, and major changes in the production and distribution of financial services (Crouhy et al., 2001). Insurance supervisors, along with banking and other sector regulators and supervisors, play an important role in multi dimensions in order to Ensure the stable financial environments. Therefore, financial institutions and modern businesses concerned with their ability to manage risks see the need for sound programs of risk management as an essential part of corporate responsibility. They also consider the Insurance industry is as a mirror for the financial stability of a country.

Insurance is an important industry. Most people hold one or more types of insurance policies, and the annual revenues of insurance companies are large. Insurance companies are also a major employer. They are considered financial intermediaries for two reasons. First, they receive investment funds from their customers. Second, they place their money in a variety of money-earning investments (Mishkin and Eakins, 2006). Three main functions create the value of an insurance company: underwriting, investment and finance. Insurance companies are in a business of assuming risk on behalf of their customers in exchange for a fee (premium). They make a profit by charging premiums that are sufficient to pay the expected claims

to the company, plus ensuring a profit. The most common types of insurance are life insurance and property and casualty insurance. Non-life insurance companies are selected as the context of this research. Property and casualty insurance is different from life insurance. First, policies tend to be short-term. Second, life insurance is limited to insuring against one event while property and casualty companies insure against many different events. Finally, the amount of potential loss is much more difficult to predict for property and casualty insurance than for life insurance. These characteristics cause property and casualty companies to hold more liquid assets than those of life insurance companies. (Mishkin and Eakins, 2006).

2.3 Risk in insurance

As risk is a key issue in financial institutions, regulations have been set to guide risk management in these institutions, including insurance companies. The purpose of most regulations is to protect policyholders from losses due to the insolvency of a company. To accomplish this, insurance companies are restricted as to their asset composition and Minimum capital ratio. Also, agents and brokers are required to obtain state licenses to sell each kind of insurance and these licenses are used to insure that all agents have a minimum level of knowledge about the products they sell. In the UK, the Financial Services Authority (FSA) is responsible for the regulation of all general insurance intermediary activity and any business wishing to sell, advise on, or even introduce customers to sources of general insurance cover will almost certainly have to become authorised by the FSA to do so (Mishkin and Eakins, 2006).

As a result of the business failures, scandals, and frauds over the past years, senior managers are now obligated to comply with a number of laws, regulations, and listing standards that call for strengthened corporate governance and risk management. Corporate scandals,

such as Enron, have led to further accounting and governance reforms. The Sarbanes Oxley Act (SOX) was introduced in 2002 to enhance responsibility and financial disclosures and to fight corporate and accounting fraud. The Act requires companies' executives to confirm that evaluation of internal control effectiveness has been undertaken over financial reporting (Woods, 2011).Risk management is always pointed out in the UK's Corporate Governance Code conjoined with internal control systems or financial controls. For any company to be able to achieve its strategic objectives and sustainable success in the longer term it needs to maintain internal control systems alongside structure and culture (Van der Stede, 2011).

2.4 Risk Management Dimensions

Organizations must implement risk managements to improve the decision-making process, to efficiently gather the information and to strengthen its corporate governance. The results of different studies as Hoyt and Liebenberg (2011); Quon, Zaghal and Maingot (2012); Kose, De Masi y Paci (2016); Stulz (2015); Beltratti and Stulz (2012); Erkens, Hung and Matos (2012) have indicated that RM is a process through which it is possible to increase financial security and improve shareholder value and that RM also al-lows companies to grow economically and financially.. The proposed dimensions within the framework and the index have their theoretical basis in the following empirical evidence.

I. *Structure*

An effective RM model must have an adequate structure to understand and communicate potential risks. Based on Lai (2011), an adequate risk managements program in organizations is very important to handle the challenges in their operations. Risk man agents practices within the

firm provide a structure that combines risk with management in a frame-work that facilitates the identification of uncertainties (Hoyt and Liebenberg, 2011). The RM structure establishes policies, processes, competencies, reporting, technology, and a set of rules for risk management. Standard and Poor's argument that the evaluation of the organizational structures of RM allows the company to manage their risks, establish a common terminology and expectations about which risks should be taken and which ones should be avoided (Pagach, 2010).

II. *Government*

An adequate CG aligned with the risk managements ensures a management system to develop internal control procedures that are crucial to avoid loss, protect safety and improve profitability (Drennan, 2004).The main goal of the risk managements mechanism is linked to the creation of economic value such as cost reductions (Ramly and Rashid, 2010). In a few words, the CG applied in the RM allows to the organization to survive in the market. An integrated government incorporates an infrastructure that allows everyone to improve transparency and understand their responsibility (Lai and Azizan 2011). In the same line, Lai (2014) argued that the risk managements program within a company may only be successful if all personnel know the nature of the relevant risk. Therefore, all risk information must be disseminated in an appropriate manner. Based on Beasley et al. (2005), the adequate communication channel within the company allows all members to understand their roles and responsibilities in relation to risk.

III. *Process*

The proper risk management process helps the company to identify the risks that it is willing to accept or must avoid and then successfully quantify and measure the identified risk. It allows the company to integrate business strategies to achieve the desired objectives. According to (Demidenko and McNutt ,2010), the appropriate RM process improves decision-making and

analyzes alternative responses to problems, helps the company to reduce operational losses and errors, identify and capture opportunities and improve capital allocation.

2.5 Insurance Definitions and its Role

Insurance is a way of plummeting uncertainty of occurrence of an event and is deriving a plans to counteract the financial consequences of unfavorable events. It is basically a co-operative endeavor of a social device for eradicating the cost to society under the occurrence of certain types of risks (Sushma, 2012). Insurance is a contract under which one party accepts significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder [IFRS, 4). Insurance can be defined as a service provided as a financial benefit in favor of an individual, association or business in exchange for collected premiums that provides a benefit in case a risk occurs. It is an economic sector that includes the conception, production and marketing of this type of service (Berteji and Hammami, 2016). The insurance firms reinforce monetary and investment activities by providing long-term funds for physical and social infrastructure while simultaneously boosting risk-taking abilities (Cudiamat and Siy, 2017).

According to the Stability of Financial Forum (2000), there are three major categories of insurance which include Life insurance, Non-life insurance and Re-insurance. The life insurance market is give different products, with different protection and investment elements which consist of pension, saving, permanent health and term insurance. It is similar to the contractual saving and deposit in addition to their risk transfer mechanism. Despite to that, the non-life insurance is called property and casualty insurance or property and liability insurance (General insurance). The non-life insurance industry is providing specific insurable event in consequence of industry injury. The policies are short-term indemnity contracts and normally there are no

investment elements as an expectation of financial return. In addition to this, the non-life insurance provide policies related with personal and commercial lines which consist of fire insurance policies, motor insurance policies, product liability insurance policies, automobile insurance and others.

According to Davies et.al. (2003), the unique attributes of insurance is worth focusing on those services that are not provided by other financial services providers and they spreading the financial losses. For instance, the contractual savings features of whole or universal life products, the indemnification and risk pooling properties of insurance facilitate commercial transactions and the provision of credit by mitigating losses as well as the measurement and management of non-diversifiable risk.

The insurance contracts involve small periodic payments in return for protection against uncertain, but potentially severe losses. This income smoothing effects from contracts that helps an organization to avoid excessive and costly bankruptcies and facilitates lending to businesses. Most fundamentally, the availability of insurance enables risk averse individuals and entrepreneurs to undertake higher risk, higher return activities than they would do in the absence of insurance, ensure efficient capital allocation, promoting higher productivity and growth (Brainard, 2008)

In general, during recent decades, there have been faster development rates in the insurance market activity in both developing and transition economies. The growth of insurance penetration such as life and non-life is used as a proxy for insurance sector growth (Brainard, 2008). They have several effects to promote financial stability, facilitate trade and commerce, enable risk to be managed more efficiently, encourage loss mitigation, foster efficient capital allocation and also can be a substitute for and complement government security programs

(Skipper, 2001). They provide both economic and social benefits to the society through reduction of anxiousness, fear and increasing employment (Ahmed et.al., 2011). Therefore, a resilient and well-regulated insurance industry can highly contribute to economic growth and efficient resource allocation through transfer of risk and mobilization of savings, enhance financial system efficiency by reducing transaction costs, creating liquidity and facilitating economies of scale in investment. (Davies et.al.2003)

2.6 Background of Ethiopian Insurance Industry

Insurance development always follows the changes takes place in the political, technological, legal, economical and social aspects of the society. All changes have significant impact on its development. World Vision Ethiopia (2014) stipulated the Ethiopian financial sector in the rural area consists of formal, semi formal and informal financial service providers. Formal providers include commercial banks and MFIs while semi formal providers are saving and credit cooperatives. Informal providers consists of social groups that provide savings and lending functions ,private money lenders , friends and relatives as well as trade partners. Modern institutionalized financial service provision in Ethiopia has very short history. For long the people had been getting financial services through informal means, Iqqubs, Iddirs and Mahbers are classic examples of informal financial service providers in which people joined neighborhood or affinity group in order to save and access borrowings through a pool of funds and to cover emergent needs of finance. Even though their role in the urban areas is declining such institutions have pivotal role in the life of rural community.

Axco (2017) reported that insurance in its modern form was first started in Ethiopia as far Back as 1905 when the bank of Abyssinia which was owned by the bank of Egypt began to transact insurance as an agent of a foreign insurance company began to underwrite fire and marine

insurance policy. In 1923, the Swiss insurer Balois set up a Branch office in Addis Ababa and soon followed by other foreign companies working on an agency basis.

During the Italian occupation from 1936 to 1941 only Italian insurance companies operated in the country. When Italians left, insurance companies from other European countries are restarted to operate insurance activities in Ethiopia. Belay (2001) described that as per the survey conducted in 1954 by the Ministry of Commerce and Industry, Insurance activities was being taking out by 18 foreign insurance companies' branches or agents and one domestic insurance company called Imperial Insurance established in 1951. The insurance market was governed like any commercial goods and a service by Civil Code 1960 from the year1950s up to 1960s insurance companies has increased to 33. The numbers of local companies were established reaching a total of 13 in number. Belay (2001) further, asserts that due to malpractice of the insurance companies, for the second time other study was conducted by the Addis Ababa Chamber of Commerce in 1967. The study found that there were 30 foreign insurance branches and agents and 10 domestic companies in Ethiopia. Still it was administered by the provision of Ethiopian commercial code, 1960 except the marine insurance by marine code of Ethiopia. The minimum capital requirement was 12,500 Ethiopian dollars. In 1970 promulgation of proclamation no 281/1970 was issued to control and regulate the insurance business in Ethiopia.

It was peculiar in that it created an Insurance Council and an Insurance Controller's office to ensure the soundness of the sector. Hailmichael(2011) also disclosed that insurance market in Ethiopia was not regulated until 1960.The first proclamation was enacted in 1970 as a result of which foreign companies were prohibited directly or indirectly fro transacting insurance business

in Ethiopia based on this some companies converted to domestic companies in line with the requirement of the law. Surprisingly, some of the nationalized companies were accepting business from other foreign countries, accepted business from Australia and was liable to pay its share of the famous Darwin Claims. Pursuant to the proclamation of 1970, regulation number 383/1971 was issued by the Ministry of Commerce, Trade and Tourism on matters which help to create conductive insurance market. The controller of insurance license for 15 domestic insurance companies, 36 agents, 7 brokers, 3 actuaries and 11 assessors has been licensed in accordance with the provision of the proclamation immediately in the year after the issuance of the law (Hailu, 2007)

In 1975 all insurers were nationalized by the communist government and the Ethiopian insurance corporation (EIC) was formed and the communist government was overthrown in 1991. In 1994 new monetary and banking proclamation no 83/1994 was issued to supervise banks and insurance but allowed for local insurers only. Axco (2017) described the communist government was overthrown in 1991and in 1994 legislation allows private insurance companies to be formed and compete with state owned Ethiopian Insurance Corporation, but foreign shareholders were barred. The logic behind the prohibition was that the local industry was weak and needed time to build up its capital reserves; rapid opening of the market would expose Ethiopian companies to domination by financially much stronger foreign insurers.

The most recent legal basis for the insurance industry in Ethiopia is proclamation number 746/2012, which was issued on 22 August, 2012 and directive SIB/34/2013 issued to set up a Supervisory organ for Insurance Business and come in to force affective from 15 April, 2013. Hence minimum paid up capital requirement become to birr 60 million for non life and 15

million for life and 75 million for both Life and Nonlife for insurers. And local insurers are required with minimum subscribed capital requirement of birr 2 billion of which 50% of the subscribed is paid up capital. The local Re-insurance establishment directive no SIB/44/2016 issued by the national bank of Ethiopia (Belay, 2001).

In Ethiopia there are 17 insurance companies, 9 of them are composite insurance means transacting both general insurance and long term insurance).out of the 17 insurance companies one is state owned and 16 is private owned insurance companies, while eight of them are transacting general insurance business. The total assets reached 11.3 billion, total capital reached 2.97 billion and Gross premium 6.99 billion. The number of branch offices has reached 424 showing a 13% growth over last year same period. Moreover, over 1,950 insurance sales agents, 53 insurance brokers, 97 loss assessors and two surveyors are operating in the market. There are two reinsurance companies in Ethiopia these are Africa-Re and Ethio-Re. Moreover, we are also micro insurance companies established to provide to the low level income societies. Micro insurance service is entitled to provide by insurance companies and by micro finance banks (NBE, 2016).

As can be discussed EIC (2016) Strategic management report, 94.82% of Gross Written premium is contributed from Non life insurance products. The remaining 5.18% is contributed from life insurance products. Out of 45 Non-life insurance products in themarket (Annex I) 54.31% GWP is contributed from Motor class of Business only. The remaining 40.51% GWP is contributed from the remaining 44 Non life insurance products.

In 2016, 2.61% and 4.21% of GWP is contributed from workmen's compensation and from Aviation class of Business respectively. Workmen's compensation is the lowest contribution to

the production next to aviation .79.44% production are derived from 5 (five) non-life (motor, marine, fire, W.C and aviation) products, 20.55% derived from other 50 (fifty) non-Life products. As can be articulated in NBE (2016) retention ratio is 76% in Non-life and 87% life this means out of the total premium earned 76% is retained by the primary insurer 24% is ceded (transferred) to reinsurance companies. Regarding life 87% is retained by primary insurer 23% is ceded (transferred) to reinsurance companies. While an average loss ratio is 69% and 51% in Non life and life insurance respectively.

The performance of insurance sector can be universally assessed with reference to two parameters; insurance penetration and insurance density. Insurance penetration explains the growth of premium with the growth of the gross domestic product in the economy. It is measured as ratio of premium to GDP of premium with the growth. Insurance density is known as per capita premium and measured as ratio of premium to total population.

2.7. Overview of Insurance Products in Ethiopia

Statutorily, insurance act classified insurance business in to two: Life insurance business and non-life (general insurance) business:

- ✓ Life insurance can be classifies in to the following main ones:
  - ❖ whole life
  - ❖ term insurance
  - ❖ endowment life insurance
  - ❖ Annuities.
- ✓ Non-life can be classified in to
  - ❖ property insurance
  - ❖ liability insurance

- surety insurance

Life Assurance

a) **Whole life**,

This type of product provides coverage against death of lifetime the sum of the policy to the beneficiary of the life assured.

b) **Endowment life assurance**,

This is comprises both term life and saving element which comprises non-profit endowment is called term and with profit- Endowment. Endowment insurance has a large savings element in that it guaranteed if the insured survives the term to pay the benefits at the end of the end of the selected term of years and at the same time making the benefits available for his dependents if the assured died.

c) **Term life**,

This type of life insurance product provides insurance coverage against death within the specified period of time, the sum amount specified in the policy to the beneficiary, and nothing being paid in case of survival.

d) **An annuity**,

An annuity is a contract whereby the assured, receives a guaranteed income, usually for the remainder of his life after retirement from his job. The main purpose of life annuity is to provide a lifetime income that cannot be outlived to an individual.

General insurance

i.Fire insurance,

This policy is designed to indemnify to the insured's own buildings and their contents(household goods and personal effects) with in this buildings against loss or damage due to fire, lighting,

thieves, escape of water from tanks or pipes, oil leakages from fixed heating systems, storm, flood, riot, or malicious acts, explosion, impact by aircraft or vehicles or animals, falling trees, subsidence and earth quake Downey (1991). The main object of fir insurance is to reinstate or replace property damaged or destroyed or to compensate an insured person for such person so that he is placed in the same financial position after a loss as he occupied immodestly before it and the insured can be also compensated for the interruption of business loss of profits due the specified risks if purchased for additional cover by paying additional premium, the additional cover is called consequential loss.

ii. Motor vehicle insurance:

This policy has developed into an important form of contract arising from its compulsory nature and increasing public demand for coverage .it provides indemnity against loss of, or damage to or arising out of or in connection with the use of motor vehicle including third party risks. The nature of the protection afforded here, permits development of three different types of the motor insurance market as; third party only policy, third party, fire and theft policy and comprehensive. Third party covers limited amount only for damages or third party persons and property only, if the insured is legally liable for that fault Comprehensive, covers for third party damage and indemnified for own vehicle too. If the purpose of the vehicle is uses for commercial purpose the cover can be extended for the cargo, passengers if the motor vehicle is busses.

iii. Marin and aviation insurance:

This type of insurance the difference is transport on sea and on air, similar risks are faced both for aviation transport and faced by marine transport. Therefore insurance product is developed to provide coverage for marine and aviation hull, container and cargo against loss or damage due to

the risks such as loss of ships, collision, and fire due to internal and external perils specified in the specific policy.

iv. Engineering Insurance:

under engineering insurance includes property or business income protection against physical damage by all risks of loss except for those specifically excluded, cover for contractors' plant and equipment of cover are contractors all risk (CAR), Erection all risk (EAR) and machinery break down (MB) and Boilers& pressure plant .Engineering policies can also covers industrial all risks such as a multiline package policy which can include fire, marine and liability.

v. Liability insurance

It provides the coverage for bodily injury or property damage arising out of the insured's ownership, maintenance, or use of the insured himself. There are different types of liability insurance classifies depends on the nature of the business nature such as product liability provides coverage any loss of third party or purchaser of the product due to the inherent risk of the product. Professional liability insurance product can be covered any loss arises due the professional negligence. Public liability insurance coverage to any public damage or injury arises due the insured own property defect.

vi. Surety policy (bond):

Insurance Bond is not an indemnity insurance it is contact of guarantee. A main object of contract of guarantee is to enable a person to obtain an employment, or a loan, or some goods or services on credit. Contract of guarantee is to perform the promise, or discharge the liability, of third person in case of default. Bond insurances are mainly given to cover frailer of contractual Agreement made between two or more parties. In surety there are three parties the 'surety or guarantor' is the insurer and the 'creditor' is the contractor to whom the guarantee is given and

the 'principal debtor' is the principal who will be entitled to be compensated in case of the default of the performance of the project.

2.8 Theories of Risk Management and evaluation of risk financial problems

The concept of risk management theory involves studying the various ways by which businesses and individuals raise money, as well as how money is allocated to projects while considering the risk factors associated with them Sarkis (1998). There are a number of theoretical perspectives which are used in explaining the effects of risk management on firm"s financial performance.

The theories reviewed in this section are contingency planning theory, enterprise risk management theory, managerial self-interest theory and DuPont Theory.

2.8.1Contingency Planning Theory

Contingency planning (CP) also known as business continuity planning is a crucial element of risk management. The fundamental basis of Contingency Planning is that, since all risks cannot be totally eliminated in practice, residual risks always remain. Despite the organization"s very best efforts to avoid, prevent or mitigate them, incidents will still occur. Particular situations, combinations of adverse events or unanticipated threats and vulnerabilities may conspire to bypass or overwhelm even the best information security controls designed to ensure confidentiality, integrity and availability of information assets (Hisnson & Kowalski, 2008).

Riley (2012) defines contingency planning as a forward planning process, in a state of uncertainty, in which scenarios and objectives are agreed, managerial and technical actions defined, and potential response systems put in place in order to prevent, or better respond to, an emergency or critical situation. A contingency plan is meant to help network and coordinate individuals, agencies and organizations to affect a rapid and effective response.

Contingency planning ensures the availability of stand-by resources and provides mechanism for rapid decision-making that can shorten disaster response and ultimately save lives. It is the act of preparing for major incidents and disasters, formulating flexible plans and marshaling suitable resources that will come into play in the event, whatever actually eventuates.

The word, ‘‘‘‘contingency‘‘ implies that the activities and resources that will be required following major incidents or disasters are contingent (depend) on the exact nature of the incidents and disasters that actually unfold. In this sense, CP involves preparing for the unexpected and planning for the unknown. The basic purpose of CP is to minimize the adverse consequences or impacts of incidents and disasters (James et al., 2013).

‘‘Therefore, as insurance companies operations are full of probability, their business transactions and policy contracts are also on contingent basis. If in the policy period no damage/loss is happen, the insurer earns the whole premium which is a rare case, yet if the claim is reported within the policy contract period the compensation should be paid. Both the magnitude of the compensation and the time are not known certainly.”

2.8.2 Enterprise Risk Management Theory

This Practice discusses Enterprise Risk Management (ERM) practices within insurance organizations. According to the Casualty Actuarial Society, ERM is defined as “the discipline by which an enterprise in any industry assesses, controls, exploits, finances, and monitors risks from all sources for the purpose of increasing the enterprise's short- and long-term value to its stakeholders.”

The underlying premise of Enterprise Risk Management (ERM) is that every entity exists to provide value for its stakeholders. All entities face uncertainty and the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value. Enterprise

risk management theory is one of the most common frameworks was introduced by the Committee of Sponsoring Organizations of the Tread way Commission (COSO) in 2004, which defines ERM as (COSO, 2004) it is a process, effected by an entity‟s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives. It also emphasizes that the organizational benefits of risk management can create value for firms (Nocco & Stulz, 2006).

Tseng (2007) stated that, Enterprise Risk Management (ERM) is a framework that focuses on adopting a systematic and consistent approach to managing all of the risks confronting an organization. ERM is an organizational concept that applies to all levels of the organization. Furthermore, a firms total risk can be reduced, financial distress is less likely (Meulbroek, 2002; Gordon et al., 2009). Traditionally the approach of risk management has been a silo approach in which one risk is managed at a time. In this approach, risk management is purchased without acknowledging the interrelationship of risks.

The silo (traditional) risk management causes inefficiencies due to the lack of coordination between the various risk management departments (Hoyt & Liebenberg, 2011). Whereas enterprise risk management is not strictly a serial process, where one component affects only the next. It is a multidirectional, iterative process in which almost any component can and does influence another (COSO, 2004).

Most empirical studies conclude that ERM generally has a significant positive impact on firm value and performance. As opposed to Traditional Risk Management (TRM), where individual

risk categories are managed separately in risk silos, ERM allows firms to manage a wide array of risks in an integrated, enterprise Wide fashion (Hyot &Liebenberg, 2006).

2.8.3 Managerial Self-interest Theory

This theory was first put forward by Stulz (1984), who argued that firm managers have limited ability to diversify the significant portion of their personal wealth held in the form of stock in the firm and the capitalization of their earnings from the firm. Such managers would prefer stability of the firm's earnings to volatility because, other things equal, such stability improves their own utility, at little or no expense to other stakeholders. This argument can be traced back to the literature on agency. In this area, the relationship between firm performance and managerial remuneration is clearly developed in such work as Ross (1977).

Demarzo & Duffie (1992), point out that observed outcomes may influence owner perception of managerial talent. This would, in turn, favor reduced volatility, or at least the protection of firm specific market value from large negative outcomes that may be found within the distribution of possible returns. For this, if for no other reason, there appears to be ample justification for the assumption that managers will behave in a manner consistent with a concave objective function. Thus, this theory links risk management and firm performances.

2.8.4 DuPont Theory

DuPont analysis, a common form of financial statement analysis, decomposes return on net operating assets into two multiplicative components: profit margin and asset turnover. These two accounting ratios measure different constructs and, accordingly, have different properties.

The traditional role of DuPont formula is to help rational investors decide on the optimal investments to undertake but has since evolved into a modern tool used to find out the strength,

weakness and likely improvement on the capital structure of an organization that will help maximize stock holders‟ wealth (Mitchell et al., 2013).

The first Du Pont model was developed before 1970s when firms‟ main goal was that of maximizing return on assets (ROA), (Liesz & Maranville, 2013), who was an electrical engineer had been contracted by General Motors company to analyze their finances after which he discovered a relationship that existed between total asset turnover, net profit margin and return on assets. He found out that return on assets is equals to net profit margin multiplied by total asset turnover, which is actually profitability multiplied by efficiency.

Gitman (1998) contend that, in the 1970s the generally accepted goal of financial management became maximizing the wealth of the firms, owners, and focus shifted from return on assets to return on equity (Liesz & Maranville, 2008) which then led to the modified DuPont model now commonly known as, DuPont identity, where return on equity is equals to return on assets multiplied by total assets and divided by equity. This was to provide for the ways institutions leverage their operations and the modern goal of organizations which is maximization of owners‟ equity. Raza et al. (2013) contend that insurance firms when measured according to their net income levels do not rank the same as when measured using return on equity and usually the best performers in terms of net income do not manage to perform in terms of return on owners‟ equity. Policyholders therefore do not like the highly performing insurance firms but the insurers which give them high returns on their investments and hence support DuPont method of measuring an insurance firm‟s performance (Raza etal, 2013).

2.9 Risk selection and their operational meaning

Rather than taking all the many possible risks the corporation facing, the researcher established some relevant and critical risks. Based on the previous empirical studies, insurers‟ financial performance is influenced by both financial and operational risks. There are so many risks under these two broad categories however; the researcher wants to focus on main risks. Under financial risks; liquidity risk, technical reserve risks and Solvency risk are very common. On the other hand operational risk contains; reinsurance and underwriting risks.

Therefore taking into consideration the above realities, the selected crucial risks are more emphasized herein under with their corresponding hypothesis. In light of the challenging capital and insurance market environment, strong enterprise risk management (ERM) is a crucial element in maintaining financial strength and ensuring a safe insurance industry. Barges (1963) defines financial risk to be the added variability of the net cash flows of the owners of equity that results from the fixed financial obligation associated with debt financing and cash leasing. Also, financial risk encompasses the risk of cash insolvency. However, this notion will be expanded to include the risk of being unable to meet prior claims with the cash generated by the firm, which is determined by the dispersion of net cash flows and the level of fixed obligations, as well as the firm's pool of liquid resources (Jacques & Nigro, 1997).

In a similar manner, Allen & Santomero (1997) have explained the increased importance of financial or corporate risks because of a variety of reasons stemming from price fluctuations, interest rate fluctuations, increased competition and greater deregulation. Moreover, with the advent of derivatives which acts as hedging instruments has let the organizations to resort to an additional avenue to protect their organizations against the shocks of financial risks (Bartram et al., 2011).

According to Kithinji, (2010) financial risk management practices fall into three major categories; credit risk practices, liquidity risk management practice and market risks. When we look at the insurance industry not only these three risks but also technical reserve risk is the other most crucial risk the reason that the insurance operation is full of contingency due to this much reserves are needed. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is the risk associated with everyday activities of an organization, which involves the management of the performance of its processes, its people, and its systems, to reach the expected business performance.

Operational risks breakdowns in internal controls, which can lead to financial losses through frauds, or failure to carry out operations in timely manner. However, in the case of insurance industry the main operational risks are underwriting, and reinsurance risks. Other aspects of operational risks include major failure of IT systems. Liquidity, technical reserve, solvency, reinsurance and underwriting risks are the selected variables based on the above analysis for this study.

2.9.1 Liquidity Risk

Liquidity shows the ability to convert an asset to cash quickly and reflects the ability of the firm to manage working capital when kept at normal levels. It measures the ability of managers in insurance and re-insurance companies to fulfill their immediate commitments to policyholders and other creditors without having to increase profits on underwriting and investment activities and/or liquidate financial assets (Adams & Buckle, 2003).

A firm can use liquid assets to finance its activities and investments when external finance is not available or it is too costly. On the other hand, higher liquidity would allow a firm to deal with

unexpected contingencies and to cope with its obligations during periods of low earnings (Liargovas & Skandalis, 2008).

Liquidity risk could include two different types of risk: the risk that an insurance company will become unable to assure itself of adequate funding due to a decline in new premium income caused by a deterioration, etc. of its financial position, or an outflow of funds caused by a big disaster, or it will incur losses because it is forced to sell assets at markedly lower prices than normal and therefore unable to maintain cash flow (capital liquidity risk), and the risk that upheavals, etc. in the market will render it impossible to trade and therefore force the company to engage in transactions at prices that are markedly more disadvantageous than normal (Black et al., 1998).

Furthermore Browne et al. (2001) found evidence supporting that performance is positively related to the proportion of liquid assets in the asset mix of an insurance company. When looking at any company's financial statements and attempting to understand where it stands as regards to its viability, liquidity ratios are quite important. The higher a company's liquidity ratio, the healthier it is. Entities with high debt and low liquidity are more likely to fail and riskier investments. It is therefore expected that insurance companies with more liquid assets will outperform those with less liquid assets.

Therefore liquidity risk is the shortage of liquid asset and the most popular ratio other than current ratio is current asset to current liability. The ratio current asset to current liability can show easily the liquid asset bases of the current liability. Thus, based on the above theories and empirical studies the researcher formulate the following hypothesis.

H1: Liquidity risk has negative and significant effect on Ethiopian Insurance Corporation Financial Performance.

2.9.2 Technical Reserve Risk

Mostly insurance companies collect premiums in advance and keep them in reserve accounts for future claim settlements. For instance, most premiums collected by insurance companies are kept in outstanding claims and unearned premiums reserves which are two main accounts in the liability side of the balance sheet.

Outstanding claims reserve is considered riskier than ordinary long-term corporate debt since neither the magnitude nor the timing of the cash outflows is known (Shiu, 2014). Its risk is both holding insufficient technical reserve and holding unjustifiably excessive provisions. Where reserves are set at a lower level than actually required then this could present the company‟s financial position in a better light than it actually is. This could result in inappropriate underwriting decisions being made. For example, more risky policies may be underwritten on the basis that more capital is available to support this than is actually the case, or higher levels of business may be written.

The insurance technical reserve is calculated as the ratio of net technical reserves to equity, and reflects the potential impact of technical reserves‟ deficit on equity in the event of unexpected losses. This ratio demonstrates the potential impact of deficiencies in technical reserves due to the occurrence of unexpected losses on the equity (Adams & Buckle, 2003). Moreover, a negative relationship between technical reserve and performance has also been found in Browne et al. (2001). Consequently, a negative linkage between the insurance financial reserve and the insurers‟ financial performance is expected. H2: Technical Reserve risk has negative and significant effect on Ethiopian Insurance Corporation Financial Performance.

2.9.3 Solvency Risk

Solvency is defined as having enough value in the form of assets in your business to cover all of the liabilities of the business. Based on the accounting equation that assets = liabilities + equity, this definition means that a business has positive equity. When a business's‟ equity becomes negative it is said to be insolvent. Bankruptcy is just around the corner for an insolvent business if it does not generate enough cash flow income to meet its debt requirements in a timely manner AARDLB (2010).

Solvency is the ability of a company to meet its long-term fixed expenses and to accomplish long term expansion and growth. A solvency ratio of greater than twenty percent is considered financially healthy. Research on the property-liability insurance industry reveals that firms with greater financial strength as measured by insurance rating firms, command higher premiums (Sommer, 1996).

2.9.4 Reinsurance Risk

Reinsurance is a contract of indemnity against liability by which an insurance company procures another insurance company to insure it against loss or liability by reason of the original insurance. It has a global feature as manifested by economic interdependency, mobility of capital and transactions across borders, sharing regulations, international competition and management; and like any product, it is subject to cycles and fluctuations driven by internal and external factors (Plantin, 2006).

It is a secondary market and is the main feature of the non-life insurance and life in the insurance business industry and is one of a number of options or tools to reduce the financial cost to insurance companies arising from the potential occurrence of specified insurance claims, thus, further enhancing innovation, competition, and efficiency in the marketplace (Patrik, 2001).

According to the Chartered Insurance Institute (2004), insurance companies use reinsurance for capacity, business, asset management, catastrophe protection, spread of risk, and market environment reasons, which are all needed at different times in a company‟s development.

According to Munich (2010) reinsurance is a transaction whereby one insurance company (the "reinsurer") agrees to indemnify another insurance company (the "reinsured, "cadent" or "primary" company) against all or part of the loss that the latter sustains under a policy or policies that it has issued. For this service, the ceding company pays the reinsurer a premium. In addition, the purpose of reinsurance is the same as that of insurance: to spread risk. Reinsurance helps protect insurers against unforeseen or extraordinary losses by allowing them to spread their risks. For example, a catastrophic fire at an industrial enterprise could financially devastate its insurer. With reinsurance, no single insurer finds itself saddled with a financial burden beyond its ability to pay.

2.10. Risk Management &Financial Performance: An Empirical Review

Currently entity stakeholders are demanding greater attention to major risks facing by the entity to ensure that stakeholder value is preserved and boosted. One response to these growing expectations is the development of a new model "Enterprise Risk Management" as an internal control system.

At the same time, organizations have been implementing "Performance Measurement System" as one of management control systems vital for corporate success. Subsequently studies have been conducted regarding on risk management, the studies which are conducted in different business sector in general, financial sector and more specifically in insurance industry provided herein under.

The study conducted by Mua et al. (2009); using a sample of Chinese firms, examine the effect of risk management strategy over performance of new product development. Their finding shows that risk management strategies that focus on technological, organizational, and marketing factors, individually and interactively improve the performance of new product development.

Effective risk management and company's performance are by emphasizing investment in innovations and intellectual capital. The data had been collected from the companies‟ financial statements and notes are available in the years of 2003 - 2008. 52 companies from 13 different industries were selected purposefully (Mohsen et al., 2011). Their result indicated that positive and significant relationship between total risk management and company's performance.

Other study conducted by Giorgio et al. (2013), the effect of enterprise risk management implementation on the firm value, on a sample of 200 European companies, belonging to both financial and non-financial industries, they did this performing a fixed effects panel regression analysis. They found a positive statistically significant relation between the ERM adoptions and firm value. On the other hand, a study of Tony et al. (2012) investigated enterprise risk management and business performance during the financial and economic crises. It examined 156 non-financial companies listed on the Standard & Poor‟s (S&P) Toronto Stock Exchange (TSX) Composite Index for 2007 - 2008 and 2008 - 2009 through a content analysis of their annual reports. The study rated risk exposure, risk consequences and risk management information among types of risks. No conclusive results on the relationship between ERM and firm performance.

Risk management practices have a significant influence on banks‟ performance. While the credit and capital risk display significant positive influence on ROA. Catherine (2014), the effects of

risk management on financial performance of insurance companies in Kenya, data collected from 44 insurance companies and published reports for a period of 2008 - 2012. The study established that a majority of insurance companies in Kenya had adopted risk management practices in their operations and that this had a strong effect on their financial performance.

Risk identification was found the most significant in influencing financial performance, followed by risk mitigation, risk management program, implementation & monitoring and risk assessment & measurement respectively. The study concluded that there was a positive relationship between the adoption of risk management practices and the financial performance of insurance companies in Kenya. Patrick & Florence (2015) influence of risk management practices on financial performance of life assurance firms in Kenya: a survey study of Kisii, the target population was one hundred and eighteen respondents. Census sampling method was used. Questionnaires were used for data collection. Risk management practice is the independent variable which contained; underwriting practice, premium valuation methods, and adjustment provisions of claim liabilities. The findings, Premium valuation methods had positive influence on financial performance of life assurance firms in Kenya.

The study established that underwriting guidelines had a positive effect on financial performance of life assurance firms in Kenya. Further the study revealed that adjusting claims and benefits paid to policy holders of insurance firms‟ increase value of investment and this gave a reason for claims adjustment to get the best estimate of acceptable costs for every person which is usually determined by observed costs based on risk factors.

The study conducted by Arif & Showket (2015) relationship between financial risk and financial performance of Indian insurances revealed that capital management risk, solvency risk, liquidity risk, volume of capital and size of company were most important determinants of financial

performance of life insurance companies in India, whereas had statistically insignificant relationship with underwriting risk. The study led to the conclusion that underwriting risk was found to have statistically insignificant relationship with financial performance of life insurance companies. And capital management risk, solvency risk and underwriting risk exhibit a negative relationship with financial performance while liquidity risk, size and volume of capital exhibit a positive relationship with financial performance of life insurance companies in India.

Joyce & Willy (2016), studied on effects of risk management practices on financial performance of non-life insurance firms operating in Kisii County in Kenya descriptive survey research design was used to collect data. Target population was 237 respondents, comprising of 116 directors and 121 senior managers. Stratified random sampling method was used to get the sample. Primary data was collected using a structured questionnaire while secondary data was collected from published reports and financial statements. The study shows that there was a positive relationship between financial performance of non-life insurance companies, risk identification practices, risk mitigation practices and risk monitoring practices. The study concludes that there is a strong relationship between risk management practices and financial performance of insurance companies in Kisii County.

Musa et al. (2014) examined the relationship between enterprise risk management and organizational performance: evidence from Nigerian insurance industry, using purposive sampling technique, 10 general insurance companies were selected from 49 companies operating in Nigeria. Contingency reserve, shareholders‟ fund, gross premium and net premium were used as dummies for ERM indicators. Panel data was adopted for a ten year period of 2001-2010. The study reveals that there is joint cause relationship among ERM variables and organizational

performance though, individual relationship of the indicators differ. Both contingency reserve and net claims respectively have significant positive impacts on organizational performance.

Eric (2005) investigated risk management techniques and financial performance in the insurance sector in Uganda. The findings on the financial performance of the insurance companies for this study show fluctuating ratios as measured by ROE.

CHAPTER THREE

Research Methodology

This chapter discuss about the methodology by which the researcher used to conduct the study. This section explained the research design and provides details regarding the population, sample and sampling technique, the data collection instruments that used in collecting data for the study and data analysis methods.

3.1. Research Design

The studies were Evaluating Risk management practice in Ethiopia insurance companies evaluating level of risk management practices. Hence, in order to describe the current practice of insurance risk management, the researcher were adopt a descriptive method of research design

3.2. Target Population

The target population for this study was operating insurance company in Ethiopia the private sector and public sector (Ethiopian Insurance Corporation) (NBE, 2016).In other ways the target population includes all insurance companies. In addition to this I distributed questionnaires for 60 respondents and 48 respondents reply to the questionnaires in good manners. From those 32 were males and 16 were females.

3.3. Sampling Techniques

To select the sample of this study the researcher was use **non probability judgmental sampling** techniques. Based on that, the researcher selected the following Insurance Companies branch.

1. **Nyala Insurance Company S.C (NISCO):** -NISCO has profoundly revised its previous covers of business situation and keenly formulated a forward looking strategic plan that would help the company efficiently deploy its financial, physical and human resource

towards achieving higher growth.

2. Africa insurance SC: -to serve honorably the needs of the society by producing, delivering and maintaining full range of superior quality insurance services at a nice price.

3. Global insurance company SC:-it believes that very existence of the company is based on the satisfaction of its customer. The reason for selecting this company was there is relatively a lot of customer and available data obtained compared to other insurance company.

Besides this I selected those mentioned above insurances for information and customers attractions in their works. In addition to this they have best data management and risk management's practices.

3.4. Type of Data

Primary and secondary data which represent the firms' characteristics was collected through questionnaire and audited financial report of the sample selected insurance companies' branch.

3.5. Data Source and Collection

This study used secondary data annual audited financial statements of private banks such as income statements, cash flow statement and balance sheets of insurance companies listed by NBE. The method for collect the data was simply be asking and receiving documents from the NBE.

3.6. Data Analysis Method

The data that gathered through as described above was analyzed through statistical measures such as averages, percentages and trends. Data interpretation is supported by tables and the analyzed data was presented in descriptive statements (narrations), descriptive statistics, graphs and Charts. Also qualitative data was analyzed through qualitative data analyzing methods.

Chapter Four

Result and Discussion

4.1 Introduction

In this chapter the result of the data collected is presented and used to provide information about the evaluating risk management practice in selected insurance company in Ethiopian. Thus the primary data was collected through a like rate scale questionnaire to gather the views and opinions of each level of management members.

Hence, in the next two sections the analysis of response rate and the overall background of respondents are presented based on the primary data collected from a sample of three insurance companies, namely; - Global Insurance Company S.C, Africa Insurance Company S.C and Nile Insurance Company S.C.

4.2 Analysis of the Response rate

Table 4.1 Response rate

	Board members and board secretaries	Top level management	Middle level management	First level management	**Total**
Distributed	**8**	**13**	**19**	**20**	**60**
Returned	**6**	**9**	**15**	**18**	**48**
Response rate	**75%**	**69.23%**	**78.94%**	**90%**	**80%**

Source own survey, 2012

A total of 60 questionnaires were returned with complete responses, of which 13 were from top level management. 19 were from middle level management and 20 were from first level management which results in a response rate of 69.23%, 78.94% and 90% for top, middle and first level management respectively. In general, out of 60 Like scale questionnaires 50were returned which provides 80% response rate.

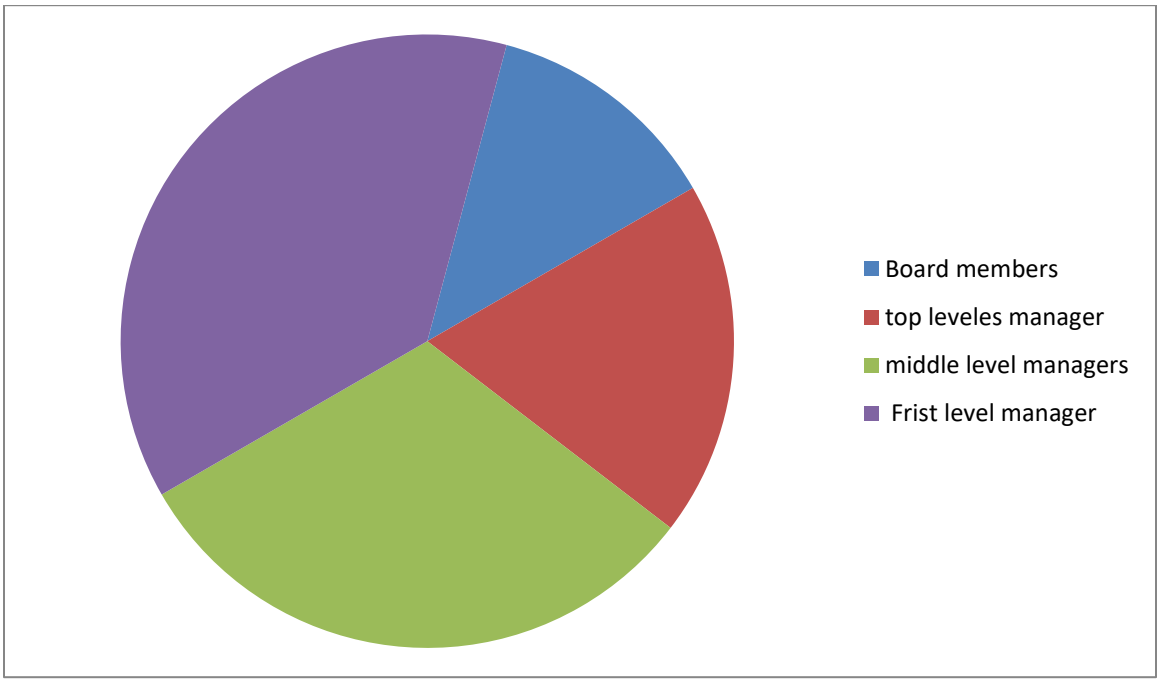

CHART 1

4.3 General background of respondents

Based on the structured questionnaire used to gather background information about the participant in the study it was found that the majority of the respondents were male with a total number 32 (66.67%) while 16(33.33%) were female.

Table 4.2 background of the respondent

	Board members and board secretaries%	Top level management %	Middle level management %	First level management %	**Total**
Gender of respondent male	4(66.67%)	7(77.78%)	8(53.33%)	13(72.22%)	**32 (66.67%)**
Gender of respondent female	2(33.33%)	2(22.22%)	7(46.67%)	5(27.78%)	**16 (33.33%)**

Source own survey, 2012

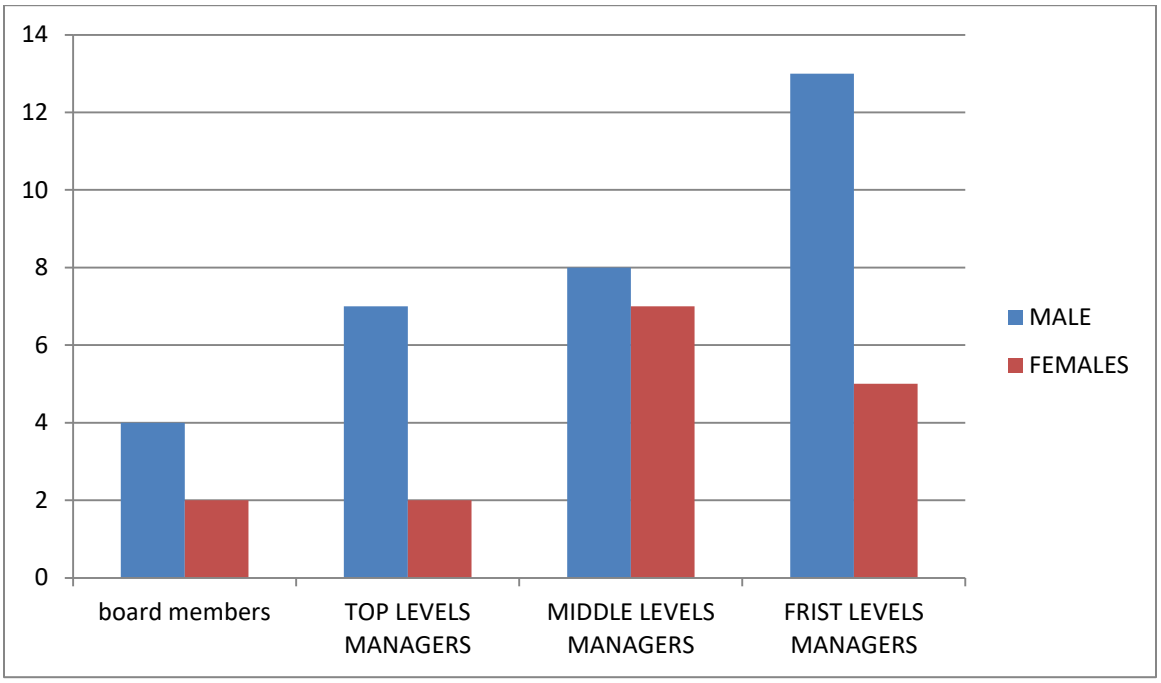

CHART 2

Similarly the chart and tables above shows that male gender participants dominate the number of respondents in board members and secretaries , top, middle and fist level management members with a 66.67% , 77.78%,53.33% and 72.22% frequency percentage respectively.

With regard to educational level of the respondents, out of the total respondents the majority 28(58.33%) were bachelor's Degree holders while 16 (3333%) were master's degree holders. In addition 4 (8.33%) participants hold college diploma from respondents. Furthermore, the work experience of the majority 26(54.16%) was from 1-6 years expriences.12 (25%) respondents were 7-13 years' work expriences.8 (16.67%) of respondents have 14-20 years experiences. In addition to this 2(4.16%) respondents have above 20 years work experience.

When we come to the age of respondents members it is observed that 10(20.83%) of the participants were between the age group of 21 to 31 years, 12(25%) of the participants were between the age group of 32 to 42 years,15 (31.25%)of the participants were between the age group of 43 to 43 years ,10(20.83%) of the participants were between the age group of 54 to 64 years and 1(2.08%) of the participants were between the age group above 65 years.

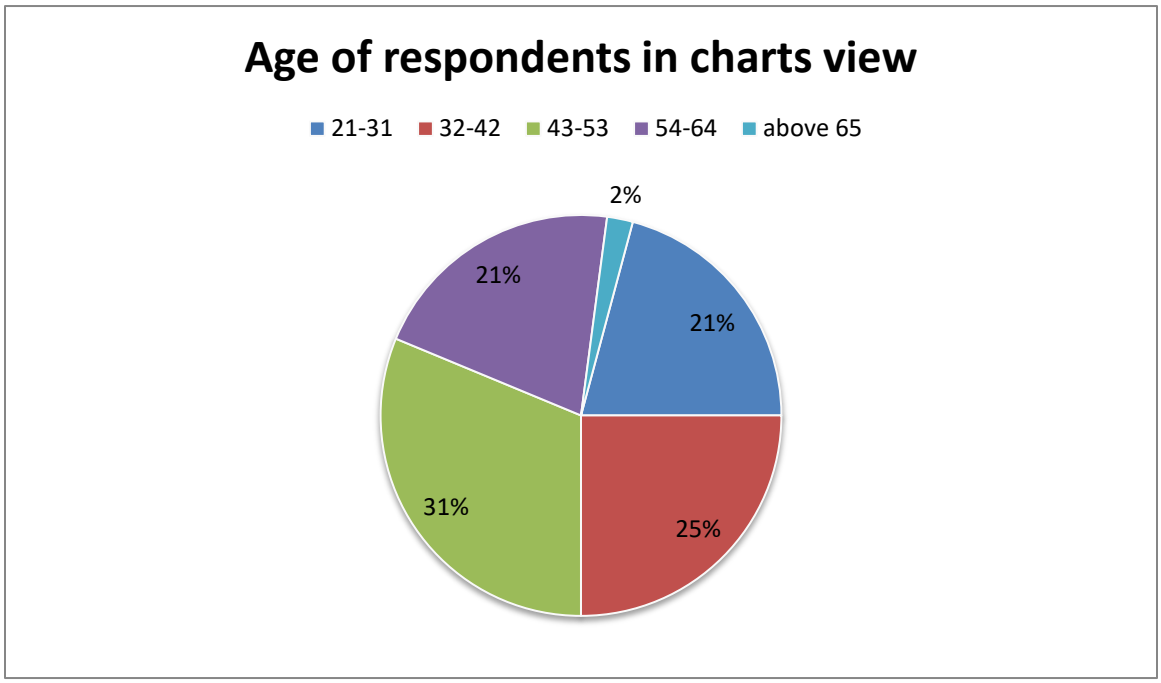

Chart 3

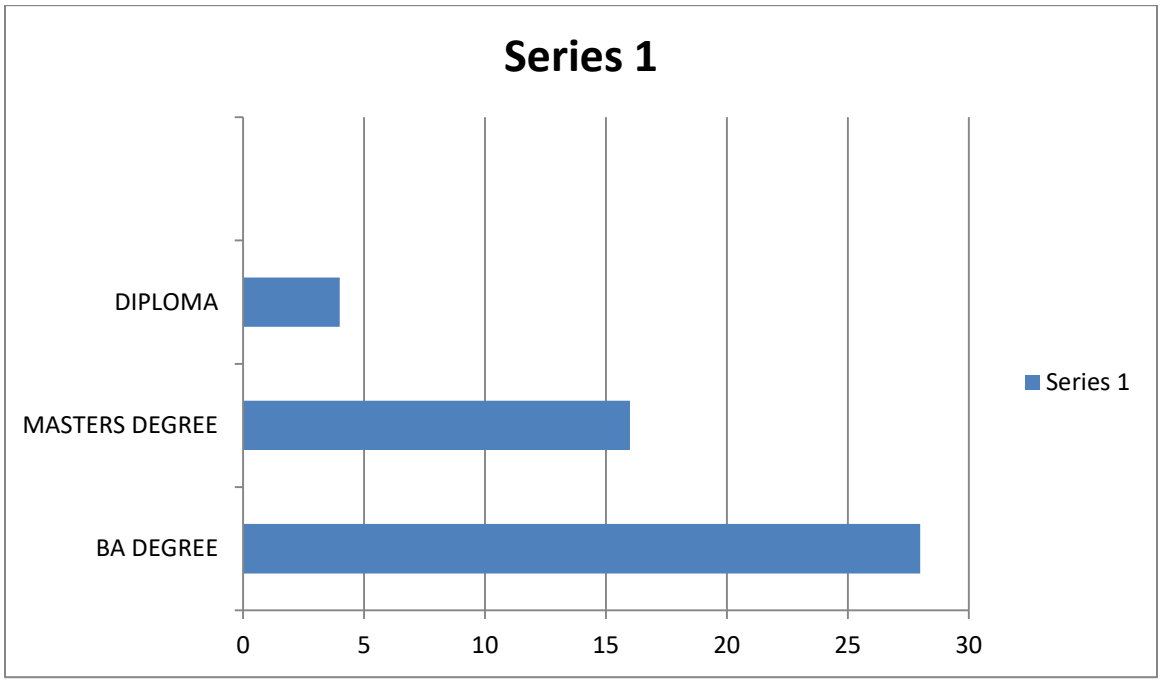

CHART 4

CHART 5

4.4 Results and Discussions

4.4.1 Results from Primary Data

In this section analysis of the data collected through questionnaires is presented. Thus, in the attempt to assess the level of enterprise wide risk management practice the study presents the data analysis results in accordance with the research objectives. We classify our questionnaires in three classes in order to clearly explain our objective of research objective which is evaluating risk managements in insurance companies in case Hawassa city.

4.4.2 Examine approaches used to prevent risk in insurance industry

In this study one of the major aims was to evaluate risk managements of insurances companies mainly the contribution of insurances in order to manage and control risk that makes the insularism to have nice situation to life better life (COSO, 2004). Therefore, the participants were asked to give their attitude towards evaluation of risk management strategies and policies as presented in the following tables with their following each questionnaires arises for them. In addition to this I classify my questionnaires in three classes for further evaluations.

4.4.3 Questionnaires related to insurance companies

I asked employers about their occupations in the beginning of questionnaires. This is in order to identify their social contributions in their activities in their occupations. All of them are employers from insurance companies from those three insurances mentioned above. Besides this most of respondents replied to me with great distinction that which is mean 4.315 out of 5 or 86.3% responses strongly agree to questionnaires. In addition to this they have positive concerning to evaluate the Risk Management Practice in Ethiopia Insurance Companies. In

s.no	**Questionnaires**	**mean**	**Standard deviations**
1.	The insurance company uses different techniques to prevent risks	4.44	0.36
2	The insurance organization uses different kinds of approach to establish boards of risk evaluation management committee	3.5	0.37
3	The insurance company affect many types of risk to control the insurance industry	4.81	0.87
4	The organization risk management controls are not explicitly linked to each risk types	4.5	0.65
5	There are difficulties in risk types to implement evaluating risk management methodologies in the company	3.83	0.78
6	Lack of enough allocated budget is challenge for risk types in the company	4.81	0.91
	Average	**4.315**	**0.44**

addition to this there is no way that most of risk management practice is contradict to their daily work in their perspective to customer's attraction and in understanding the insurers

4.4.4 The insurance companies staff member's contribution and roles to control risk

I asked employers about their occupations in the beginning of questionnaires. This is in order to identify their contributions in their activities in their occupations. All of them are employers from insurance companies from those three insurances mentioned above. Besides this most of respondents replied to me with great distinction that which is mean 4.37 out of 5 or 87.4% responses strongly agree to questionnaires. In addition to this they have great roles in order to control and manage the risk concerning to evaluate the Risk Management Practice in Ethiopia Insurance Companies. In addition to this there is no way that most of staff employers that contradict to their daily work in their perspective to customer's attraction and in understanding the insurers.

S.NO	QUESTIONARIES	Mean	Standard deviation
1	The organizations risk management committee is not included in the preventing risk types	4.88	0.92
2	All managers regardless of their levels involves in evaluation of risk management practice	4.36	0.77
3	The insurance company stakeholders involves in risk evaluation management practice	3.98	0.69
4	The insurance company staffs involves in	4.26	0.81

	evaluating risk management practice		
	Average	**4.37**	**0.7975**

4.4.5 Data communication in insurance companies

I asked respondents about the insurance companies about their infrastructure of the insurances. This is in order to identify their data communications contributions in their activities in their insurance companies. All of respondents are from insurance companies from those three insurances mentioned above. Besides this most of respondents replied to me with great distinction that which is mean 4.1 out of 5 or 82 % responses agree to questionnaires. In addition to this they have great roles in order to control and manage data communications concerning to evaluate the Risk Management Practice in Ethiopia Insurance Companies. In addition to this there is no way that most of respondents that contradict to their daily work in their perspective to customer's attraction and in understanding the insurers.

S.NO	**QUESTIONARIES**	**Mean**	**Standard deviation**
1	The insurance organization prevents loss of infrastructures from each risk types using internal or external data	3.89	0.97
2	The organization risk management controls are not explicitly linked to each risk type's return.	4.56	0.76
3	In evaluating risk management practice of the insurer there exists lack of risk management	3.87	0.58

	software or information system in Ethiopian		
4	In evaluating risk management practice of the insurer there exists lack of risk management software or information system in Ethiopian	3.98	0.83
	Average	**4.1**	**0.785**

4.4.6 Data from secondary source

All insurances from all corners have nice status in every corner to allocate budget evaluating their insurance evaluation mechanisms. Besides this when we come to evaluating the three insurances companies its manages in all path to achieve their risk managing procedure.

	Global	**Africa**	Nyala
ASSETS			
Property, Plant and Equipment	137,451	85,615	230,245
Intangible Assets	1,061		1,938
Investment Properties		24,027	186,000
Leasehold land		24,478	3,823
Statutory Deposit	24,730	32,628	36,023
Investment Securities:			
Available for sale	100,000	110,638	96,141
Loans & Receivables			45
Government Securities		9,269	
Reinsurance Asset/Rein's Share of liabilities	29,514	103,073	138,318

Deffered acquistion costs	13,177	14,576	9,797
Deffered income tax	791	3,153	
Insurance receivables		25,373	2260
other receivables	89,365	60,059	30,257
Cash & Cash Equivalents/ Bank Deposit/	312,091	462,627	294416
Total Assets	**708,180**	**955,516**	**1,029,263**
LIABILITIES			
Insurance Contract liabilities	373,564	500,181	417,446
Deferred income tax			3195
Differed Commission income		7,517	8875
Retirement benefit obligations	2636	1,513	1905
Financial Lease/ Borrowings			1,898
Current income tax liabilities	4,017	3,591	8353
Creditors arising from reinsurance arrangement	64,777	79,281	37,386
other payables	37,643	61,948	44857
Total Liabities	**482,637**	**654,031**	**523,915**
EQUITY			
Share capital	164,859	213,484	234,133
Share premium		127	6835
Legal reserve	32,156	32,221	115258
Remained earnings	28,527	55,654	149123

Total Equity	**225,542**	**301,486**	**505,349**
Total Equity & Liabilities	**708,179**	**955,517**	**1,029,264**

Source balance sheet of the end of June 30, 2018

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMENDATIIONS

This chapter presents the summary of the findings, conclusions drawn from them and the Recommendations. The implications of the research are discussed and suggestions made on areas of further study. Some useful recommendations are to evaluate the Risk Management Practice in Ethiopia Insurance Companies. And at the end of the chapter to I try identify the risk managing problems according to the framework requirement with regard to the problem statement based on the research findings. The overall objective of this study was to be to evaluate the Risk Management Practice in Ethiopia Insurance Companies.

5.1. Summary of findings

The summary of the findings is based on the study objectives that is to evaluate the Risk Management Practice in Ethiopia Insurance Companies. To examine the approaches I used to examine to evaluate the Risk Management Practice in Ethiopia Insurance Companies I used several questionnaires from several groups in order to strength with several packs. Besides this I used several data managements to evaluate briefly for further evaluations. I summaries that in evaluating risk management in perspective to risk, data analysis which means mechanisms of data management and staff members contributions all three insurance companies reply good attitudes toward each corners that arises for them. In addition to this all most questionnaires that

there is no way that most of risk management practice is contradict to their daily work in their perspective to customer's attraction and in understanding the insurers in all corners. In addition to this When we seen in data management all in insurances companies which research was done are very nice and the insurance companies have in very good status in order to manage risks.

5.2 conclusions

The research tries to assess the evaluations risk management practices in insurance companies of Ethiopia. As finding of this research shows that insurance companies and the insurers have strong relationship from the beginning of the emergency of daily activities up to today. The main causes for insurance companies were emergency cases of social status of insurers that were to compensate the insurers to its first position in goods manners. So it's good for insures to know about insurance companies compare to the social status of people those who didn't use their profession in order to provide the qualities services for his client. In addition to that the insurance companies have a vital role in promoting and understanding in smart way in relations to others work and it is very good manner to work for every profession in order to spread exact knowledge of the insurance companies activities in society. Otherwise lack of awareness against peoples will leads the society can affect the emergence of human people's life & wealth's that leads peoples in the risk problems. In additions to this I concluded that the insurances has strong risk management practice in order to evaluate risk management practices in insurance companies specifically in Hawassa branches. Risk-related objective were developed by staff members of insurances in order evaluate in good manner to a well risk identification and communication of risk appetite and tolerance. However, the risk evaluations practice does not include all employees and workshop have not been conducted this lead the insurances not to perform risk identification

in effective manner.

In regard to evaluate risk management practice the insurance companies staff members have great manner to risk treated based on their loss and probability of occurrence and also evaluated in terms of qualitative and quantitative value. Risk response ensures safeguarding insurances that will reduce vulnerability of insurances from loss.Besides this insurance companies have great data communications to perceive the risk management ability to mitigate credit risk, market risk, underwriting risk and technical provision risk moderate and above Due to risk management insurers benefited in identifying their risk management policies and procedures, obtaining information about their risk exposures and extending the knowledge of employees about the different types of risk exposure. Moreover risk management is acknowledged by management to increase business performance. The final conclusions of this indicate that risk control, support practice of risk management and place control mechanism. The overall indication of the study point out most of the component of risk management practice are in more than moderate extent this indicate most of the respondent are in neutral agreement which shows they are not sure on the evaluate risk management and the insurances need to give due attention and awareness about the practice of risk management.

5.3 Recommendations

Depending on my finding when I conducted this research and I recommended that the following views to good to evaluate risk management practices in insurance companies.

- Having well developed insurance sector must be one of the crucial primary targets of the Governments which means that the insurance companies must be developed in several packs that lead for furthers improvements. In addition to this government also should plays more for further achievements in controlling each insurance company. It requires financial developmental strategic focus. This can lead the sector ultimately to occupy its right place in economics development system in the country. This outcome can be achieved by providing conducive and competitive environment like adequate investment.
- The company must customize the policy documentation to reflect the expectations of an Ordinary laid person. Most of clients are not lawyers so the documents should be aligned with the demographics of the intended consumers. This means that the insurances companies must have smart data management for further achievements
- The Company should increase distribution channels, promotion, creating good working environment for employees. This means that companies must work several advertising that used to put awareness between peoples for furthers achievements in medias like television, radios, brochures, leaflets and others social medias.
- The company must ensure that claims are settled fairly and quickly in accordance with the Company's contracts and standards. This means if the insurers have got some problems insurances companies must had fair and well managed compensation for risk that he had.

- Attention should be given on the result of negative impact of insurance on economic growth. This means that the insurance companies must works in order to reduce that mainly affects the countries' economies. Example road traffic accidents.
- All possible measures to reverse the structural problem of the insurance direction which can foster continuous & sustainable development of the insurance sector. The insurance companies must briefly work and manage our countries for further achievement to manage and develop the countries smooth way without hashing others classes.

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Appendi*x*

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Dear respondents, the main objective of this questionnaire is to gather data for the research entitled on to evaluate the Risk Management Practice in Ethiopia Insurance Companies. The success of this study will highly depend on the honest answer you are going to provide. The researcher would like to assure you that the information that will be given only be used for academic purpose.

General instructions

- ✓ No need of writing your name
- ✓ For your answer put " ✓ " mark in the box
- ✓ For question need to write please, neatly and with precise words.

Personal information of the respondents

Research Questionnaire-1: Prepared to Gather Insurance Company

Management members' views

Part I: Respondent profile

Direction: kindly place a mark "√" in the provided boxes and fill the blank spaces.

1. Name of Insurance Company _____

2. Type of Ownership

Public Insurance Company ☐

Private Insurance Company ☐

3. Insurance Company Year of Establishment _____

4. Gender

Male ☐ Female ☐

5. Age 21 to 31 ☐ 32 to 42 ☐

43 to 53 ☐ 54 to 64 ☐ 65 or above ☐

6. Level of Education

College Diploma ☐ Ph ☐

Bachelor's Degree ☐ others please specify_____

Master's Degree ☐

7. Work Experience

1 – 6 Years ☐ 14 – 20 Year ☐

7 – 13 Years ☐ above 20 Year ☐

Part II:Content Questionnaire Please expresses your view by marking a tick ("√") in relevant box

No.	Evaluating Risk Management practices in insurance company.	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
1.	The insurance company uses different techniques to prevent risks					
2	The insurance organization uses different kinds of approach to establish boards of risk evaluation management committee					
3	The insurance company affect many types of risk to control the insurance industry					
4	The organization risk management controls are not explicitly linked to each risk types					
5	There are difficulties in risk types to implement evaluating risk management methodologies in the company					
6	Lack of enough allocated budget is challenge for risk types in the company					

Risk management and insurance related questions

No.	Evaluating Risk Management practices in insurance company.	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
1	The organizations risk management committee is not included in the preventing risk types					
2	All managers regardless of their levels					

	involves in evaluation of risk management practice					
3	The insurance company stakeholders involves in risk evaluation management practice					
4	The insurance company staffs involves in evaluating risk management practice					

The insurance companies staff member's contribution and roles to control questionnaires

Data communication in insurance companies questionaries

No.	Evaluating Risk Management practices in insurance company.	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
1	The insurance organization prevents loss of infrastructures from each risk types using internal or external data					
2	The organization risk management controls are not explicitly linked to each risk type's return.					
3	In evaluating risk management practice of the insurer there exists lack of risk management software or information system in Ethiopian					

4	In evaluating risk management practice of the insurer there exists lack of risk management software or information system in Ethiopian					